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ITEM 8:* THE ENVIRONMENT FUND, OTHER FINANCIAL MATTERS AND ADMINISTRATION

THE GLOBAL ENVIRONMENT FACILITY

Note by the Executive Director

Summary

The present report reviews UNEP's role as one of the three agencies implementing the Global Environment Facility (GEF), and outlines developments in the Facility since the sixteenth session of the Governing Council. The GEF is now undergoing a process of evaluation and restructuring in order to meet the requirements that the Convention on Biological Diversity and the United Nations Framework Convention on Climate Change set for the Facility to operate as their interim funding mechanism. While a general consensus has emerged on most key aspects of a restructured GEF, a number of issues and details still remain to be agreed by Governments before a fully restructured GEF can become operative in 1994.

Suggested action by the Governing Council

The Governing Council may wish to:

- Approve the actions of the Executive Director in guiding the participation of the United Nations Environment Programme in the pilot phase of the Global Environment Facility;

- Request the Executive Director to continue to cooperate effectively with the World Bank and the United Nations Development Programme in the successful completion of the pilot phase, bearing in mind the United Nations Environment Programme's particular mandate as the principal body in the United Nations system for environmental matters;

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* Refers to the number of the item on the Provisional Agenda (UNEP/GC.17/1).

- Note the recommendations of Agenda 21 (Chapter 33);

- Note the progress achieved by the Participants in the Global Environment Facility and the implementing agencies in outlining the restructuring of the Facility;

- Further note the invitation to the agencies responsible for the implementation of the Global Environment Facility to undertake the operation of a funding arrangement for the Convention on Biological Diversity, in accordance with Article 21 of the Convention, on an interim basis until the first meeting of the Conference of the Parties;

- Note that the United Nations Framework Convention on Climate Change entrusted the Global Environment Facility to be the international entity for its funding mechanism, referred to in Article 11 of the Convention, on an interim basis, after the Facility has been appropriately restructured;

- Request the Executive Director to cooperate with the implementing agencies of a restructured Global Environment Facility that satisfies the recommendations of Agenda 21, on an interim basis, until the arrangements are confirmed by decision of the Governing Council.

Introduction

1. In paragraph 2 of its decision 16/47 on the Global Environment Facility (GEF), the Governing Council endorsed the actions taken by the Executive Director to support the establishment of the GEF and to collaborate with the World Bank and the United Nations Development Programme (UNDP) in its implementation. By paragraph 8 of the same decision, the Executive Director was requested to continue to cooperate fully with the World Bank and UNDP in the development and implementation of the pilot Facility.

2. UNEP's role as one of the agencies implementing the GEF has been the following:

(a) UNEP established the Scientific and Technical Advisory Panel (STAP), made up of experts with a high level of skill and integrity, and facilitated the Panel's work as an independent advisory body by providing secretariat services;

(b) UNEP has ensured that the GEF has operated in line with existing global conventions and agreements on the environment, in particular the Montreal Protocol on Substances that Deplete the Ozone Layer, and has been responsive to intergovernmental negotiations on the Convention on Biodiversity and the Framework Convention on Climate Change;

(c) UNEP has contributed to ensuring a better focus on high-priority projects in light of their expected global benefits, through:

(i) Identifying a number of GEF projects;

(ii) Participating in project development;

(iii) Providing technical opinions to STAP and the other implementing agencies; and

(iv) Identifying suitable experts to be used by the implementing agencies.

Developments since the sixteenth session

3. Four tranches of project proposals have been endorsed by the Participants' Meeting of the GEF, at an estimated total cost of some $753 million. It is expected that some $20 million remain for other new projects during the pilot phase of the Facility due to be completed in terms of commitment before the end of 1993. Five projects, costing $17.5 million in total, have been endorsed for UNEP to implement as the lead agency. These are phases one and two of country case studies on biodiversity; a global biodiversity assessment; management of data on biodiversity; and country case studies on sources and sinks of greenhouse gases. All these projects directly support the objectives of global conventions.

4. Arrangements are now being put in place to evaluate the performance of each of the implementing agencies in undertaking their alloted roles under the GEF. The evaluation process will be undertaken by the evaluation units in each agency separately, but a coordination mechanism will be established by the three units to ensure a uniform approach to the evaluation. In addition, an independent panel of experts will be established to oversee and offer guidance on how the evaluation should be undertaken. It is planned that the evaluation should be completed before a Participants' Meeting in December 1993, when it is also planned to approve the final restructuring of the facility.

5. Agenda 21, paragraph 33.16 (iii), states: "*The Global Environment Facility*, managed jointly by the World Bank, UNDP and UNEP, whose additional grant and concessional funding is designed to achieve global environmental benefits, should cover the agreed incremental costs of relevant activities under Agenda 21, in particular for developing countries. Therefore, it should be restructured so as to, *inter alia*:

"Encourage universal participation;

"Have sufficient flexibility to expand its scope and coverage to relevant programme areas of Agenda 21, with global environmental benefits, as agreed;

"Ensure a governance that is transparent and democratic in nature, including in terms of decision-making and operations, by guaranteeing a balanced and equitable representation of the interests of developing countries, as well as giving due weight to the funding efforts of donor countries;

"Ensure new and additional financial resources on grant and concessional terms, in particular to developing countries;

"Ensure predictability in the flow of funds by contributions from developed countries, taking into account the importance of equitable burden-sharing;

"Ensure access to and disbursement of the funds under mutually agreed criteria without introducing new forms of conditionality".

6. Attention is now focused on restructuring the Facility in light of the experience of the pilot phase and the decisions of the General Assembly relating to United Nations Conference on Environment and Development and Agenda 21. Restructuring will bring universal access to membership, without any mandatory membership fee; appropriate burden sharing between donors in their contributions to the core fund; establishment of the legal nature of the Participants' Meeting with decision-making powers; and the setting up of a carefully considered system of voting which will protect the interests of the recipient countries, as well as the efforts of the donor countries.

7. The United Nations Framework Convention on Climate Change, signed in Rio de Janeiro, stipulates that the GEF shall be the international entity entrusted with the operation of the financial mechanism for the Convention on an interim basis, subject to an appropriate restructuring of the Facility and its membership being made universal. The Conference for the Adoption of the Agreed Text of the Convention on Biological Diversity, held in Nairobi in May 1992, invited a fully restructured GEF to operate an interim financial arrangement for the Convention for the period between the opening of the Convention for signature, which took place in Rio in June 1992, and its entry into force.

8. In their meetings in Abidjan from 3 to 5 December 1992 and in Rome on 4 and 5 March 1993, the GEF Participants developed the restructuring of the Facility with a view to meeting, in particular, the requirements of the Conventions and the recommendations set out in Agenda 21. The GEF Participants will meet again in May and December 1993 to finalize proposals for the restructuring, including its governance. When they convene for the first time, the Conferences of Parties to the Conventions will consider whether the restructuring meets the requirements set by the legal instruments for the financial mechanisms of the conventions. The decisions of the Abidjan and Rome Meetings of Participants in the GEF suggest that the Parties to the Framework Convention on Climate Change and the Convention on Biological Diversity will recognize the restructuring scheme as acceptable. However, some concerns expressed by representatives of developing countries at the recent GEF Participants Meetings still remain to be resolved. The restructured Facility is expected to become operative in 1994.

9. In order to define and anchor the GEF's legal character, the Participants' Meeting will adopt a resolution on the basic aspects of the restructured Facility and, subsequently, it is proposed that the governing bodies of UNDP, UNEP and the World Bank formally approve those arrangements. Those decisions would give the implementing agencies their mandates to conclude a new Inter-agency Agreement for the management of the

longer-term GEF. Since the restructuring of the GEF and the proposed resolution cannot be finalized and approved by the Participants' Meeting before the seventeenth session of the Governing Council, the Council will be asked to consider a special decision on this issue when it meets in 1994.

10. Under a restructured GEF, it is anticipated that UNEP will continue to provide the secretariat to STAP, as well as to ensure that GEF operations are in line with conventions and agreements on the environment; that the operations build upon global, regional and national assessments, priorities and strategies; and that projects are based on the most appropriate technologies. With the growing scale of the Facility, and to further strengthen UNEP's scientific input into the GEF process, more UNEP staff may need to be assigned to GEF operations. Such staff will, as now, be paid from GEF funds.